National University of Science and Technology

Think in Other Terms

FACULTY OF COMMERCE

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QUESTION: **List the factors that drive demand for insurance services and evaluate their relevance for a companies' marketing strategy. [25]**

Demand for a good or service is the quantity of that good or service that potential purchasers would be willing and able to buy, or attempt to buy at any possible price. The main determinants of insurance that individuals demand is the general economic law of demand. This economic principle states that demand is a function of price and that individuals will respond to a compensated decrease in price by increasing their purchase of a given good or service. The factors that influence the demand for insurance can be listed as follows:

- The price/premium
- Income and wealth
- Risk awareness
- Attitude towards risk
- Availability of substitute products
- Mandatory insurance
- Competition
- Tax
- Inflation

Factors specific to Life insurance

- Propensity to save
- Alternative methods of savings
- Tax

Keller (1993, p 1-2) notes: "… marketers need a more thorough understanding of consumer behaviour as a basis for making better strategic decisions about target market definition and product positioning …". Hence having done a market research on these factors that affect demand an insurance company ought to then come up with an ideal marketing strategy. "Marketing strategy is concerned with decisions relating to market segmentation and targeting, and the development of a positioning strategy based on product, price, promotion and distribution decisions." (Slater and Olson 2001, p. 1056). An ideal marketing strategy can be arrived at through the establishment of an ideal marketing mix. In that context insurers should pay special attention to the marketing mix, which in insurance business comprises the following:

- Insurance products

- Insurance premiums
- Distribution channels
- Promotion

The price/ premium

Insurance price has its uniqueness in that it is both a driver of insurance demand and one of the elements of the marketing mix, it is in fact, the most sensitive element of the marketing mix. Higher premiums discourage demand for insurance products and, even if these result in a satisfactory profit during the business year, they may yet limit the insurer's growth and cause a reduction in its market share. On the other hand, low premiums enable growth, but threaten the profitability of an insurance company, and its survival in the market. Therefore, it is necessary to determine the premium that enables profitability, growth, and development.

Price as a driver for insurance demand is also relevant to the other three elements of the marketing mix, as they all come at a cost. Kotler *et al* (2009) notes: "Investing in the marketing mix and marketing activities in general makes sense only if the investment is cost-effective". The cost associated with the other elements of the marketing mix must be in line with the target premium for that market. For promotion the methods used to get the message across to the potential insureds (print, radio, television, websites, etc) must be in line with the target premium. Also, the distribution channels selected has to be in line with the targeted premium levels (through sales staff, branch networking, direct marketing, intermediaries). Lastly the insurance product itself has to be in line with the targeted premium levels. If need be unnecessary bells and whistles have to be removed.

Income and wealth

The marketing mix has to be in line with the levels of income and wealth of the target market. For low income individuals the emphasis would be on the price of the product, they would want low priced (affordable) products. The promotions used for this market would also have to be cost effective and effective in reaching the target market, for example if the promotion method is print then the question would be does the target group buy such material and would it be an effective method. The distribution channels used also would have to be cost effective for this group.

On the other had for high income earners, the emphasis would be on the product offered, they are more likely to prefer bespoke products. Other elements of the marketing mix would also be of relevance. The price of the product for this group might be seen as an indication of the quality of service offered, hence if a company charges low prices for this group its products might be seen as of lower quality. The method of promotion must be effective, for example the use of radio for this group generally might not be a clever idea as it would fail to reach the greater part of the target population. On the other hand, the use of newspapers, websites might be more effective. Also, the distribution channel is of relevance with high wealth individuals usually preferring the use of brokers to direct channels.

Risk awareness

Knowing the level of risk awareness of the target market would ensure that the ideal marketing mix is selected. If risk awareness is low, then the marketing mix would be heavily skewed towards the promotion element. This is as risk awareness is generally increased by promotion and hence a need for aggressive promotional measures. Also, the distribution channel selected would have to be one that would be effective in increasing risk awareness. As an example, the use of brokers to agents might be of relevance where brokers carry out risk exposure analyses hence making potential insurance clients aware. Where risk awareness is high the focus would be on the other three elements of the marketing mix.

Attitude towards risk

Attitude towards risk is closely linked to risk awareness as one has to be aware of the risks to have an attitude towards it. Generally, there are three groups of attitudes risk averse, neutral and lovers. There is need to promote insurance products and services accordingly, communicating the benefits of a product aggressively through such methods as intimidatory marketing. Personnel should be given adequate training for creating impulsive buying.

Availability of substitute products

The availability of substitute products as a driver of demand would also be of relevance to the marketing strategy. These substitute products to insurance would include, risk retention, self-insurance, and captives. In coming up with the marketing strategy the insurers must align their marketing strategies to the availability of substitute products in that market. Where there is high

concentration and high likelihood of a shift to substitute products insurers would have to ensure that the marketing mix selected is able to obtain and retain clients. It should be a marketing strategy that is highly competitive. There might be a need to show an upper hand in terms of expertise by coming up with tailor made products to suit the needs of individual clients. Competitive prices should be charged in order to deter the use of alternative methods of protection for example some corporate may self-insure simply because the conventional way of insuring is costly. Promotion might have to be geared towards making potential clients aware of the products available.

Mandatory insurance

Where the insurance products are mandatory for example in Zimbabwe professional indemnity insurance, employer's liability, RTA the concentration is usually on efficient and effective delivery of the services. The insurers would have to ensure the ideal mix for such products, with the distribution channel the insurer would have to ensure that the distribution of its channels is of convenience. The geographical spread of an insurer's offices would be of essence. The insurer should be conveniently located for easier access by the general insuring public. Also, the product where it can be varied would be of essence, an addition of some bells and whistles might make the product more attractive to the insurance clients.

Competition

Knowing the competitive environment of the target market would help an insurance company come up with a marketing strategy that would help increase sales and achieving a sustainable competitive advantage. The insurance company can use the marketing mix as a tool to gain competitive advantage. The Price element can be used to come up with a pricing strategy that would better suit the competitive environment of the target market. For example, if an insurance company wants to defend an existing market from new entrants it can use price undercutting. This has been the case in the Zimbabwean insurance industry where IPEC has warned to withdraw licenses of companies making such practises (Fidelity, 2016). If the insurance company wants to increase market share or enter new markets it can use price penetration.

Knowing the competitive environment can also assist in coming up with the ideal distribution channels. This might mean opening up more offices in different geographical locations, it might be having to market the company to intermediaries say brokers through contingent commission or

higher basic rate of commission (where not determined by regulatory bodies). Promotion can also be used as a tool to gain competitive advantage through say freemium that is offering products or services free of charge. This is a common method in Zimbabwe where t-shirts and pens are usually given by insurance companies.

Tax

Knowledge of the tax environment of the target market as a driver of demand would help in coming up with a competitive marketing strategy. For the promotional element the insurance company might use the tax benefits relevant to a particular product as a marketing tool. In Zimbabwe it could be the contributions made to medical aid societies where a 50% tax credit is given, it could be the tax free lumpsum (1/3 the pension entitlement) payment on retirement. Making the insurance clients aware of these benefits makes the products more appealing.

Inflation rate

Knowledge of the inflation rates of the target market as a driver of demand would help in coming up with an ideal marketing strategy. If the target market is faced with reduced demand due to high inflation rates, a company might add such policy features as 'insurance inflation protection'. The insurance company should be aimed at making people aware of where their premiums will be invested, usually off show, where there is low level of inflation. By so doing clients will be assured that in the event of a loss the insurer will honour their obligation.

Propensity to save

The demand for life insurance products is affected by the society's attitude towards saving. A high propensity to save entails increased demand for insurance products. Insurer's marketing strategy will be multiple product offerings with a high level of promotion to increase awareness of what the product offers to the consumers. Where there is a low propensity to save, the burden on the insurers will be centred on influencing people, through promotion, on saving through insurance.

Alternative methods of saving

This factor is mainly dealing with substitute products which can be used as investment vehicles by the general insuring public; therefore, the major strategies will be aiming at highlighting the

peddling points of the insurance products. For example, the issue of designing with profits endowment policies in life insurance or unit linked products in the face of inflation. Also, insurers can take advantage of the reduced tax implication on life insurance proceeds through making the insurance clients aware.

In **conclusion** as Keller (1993, p 1-2) notes: “… marketers need a more thorough understanding of consumer behaviour as a basis for making better strategic decisions about target market definition and product positioning …”, to come up with a competitive marketing strategy one has to have a clear understanding of the factors that drive demand within that target market.

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